

July 9, 2004

Dear Voter in the BSAI Crab Buyback's Readministered Referendum:

I enclose a new ballot for your use in our readministration of the BSAI crab buyback referendum.

As we notified you on July 3, 2004, we have deemed the buyback's previously administered referendum to have been unsuccessful.

The new ballot specifies a BSAI crab license for which our records indicate you're the holder of record. That license qualifies you to one vote in the readministered referendum.

This readministered referendum determines whether voters approve or disapprove the post-buyback landing fees necessary to repay a \$98.4 million buyback loan.

We urge you to consider this matter carefully and exercise your right to vote in our readministration of the buyback's referendum.

For your vote to count, you must complete the ballot and return it to us soon enough for us to receive it not later than 5:00 P.M., Eastern Daylight Time, on July 30, 2004.

We won't count ballots we receive after that date and time.

You may return the completed ballot to us by U.S. mail, overnight delivery, or any other method (except fax) you choose.

Your completed ballot must bear the original signature of your authorized signer. We won't count a copy of a signed ballot.

If you have more than one BSAI crab license qualifying you to vote, we'll separately mail you one additional ballot for each additional license.

All votes have equal weight.

If at least two-thirds of the responsive ballots we receive vote for the industry fee system which repays the buyback loan, the readministered referendum will succeed, the fees will be approved, and we'll finish the buyback.

If, however, more than one-third of the responsive ballots we receive vote against the industry fee system, the readministered referendum will be unsuccessful, the fees won't be approved, and we won't finish the buyback.

(1) WHY ARE WE READMINISTERING THE REFERENDUM?

Because we were previously provided with overstated crab catch history data for the bidders' reduction/history vessels during the bid scoring period. As our July 3, 2004, letter notified you:

Because of the government's unilateral mistake, the May 7, 2004, capacity reduction information we provided to voters during the previously administered referendum was materially inaccurate. This adversely affected the previously administered referendum's integrity because it failed to provide referendum voters with an accurate basis for deciding how to vote. NOAA Fisheries has now determined, consequently, that it must deem the previously administered referendum unsuccessful.

(2) DO WE NOW HAVE THE CORRECT DATA?

Yes.

(3) DID THE MISTAKE AFFECT OUR PREVIOUS SCORING, RANKING, AND ACCEPTANCE OF THE BIDS?

Yes.

The mistake resulted in our previously scoring, ranking, and accepting bids based on inaccurate crab catch data during the bid scoring period.

(4) HAVE WE RE-SCORED AND RE-RANKED THE BIDS BASED ON THE CORRECT CRAB CATCH DATA DURING THE BID SCORING PERIOD?

Yes.

(5) DID BID RE-SCORING AND RE-RANKING CHANGE THE BIDDING

RESULTS?

Yes.

(6) DID WE NEWLY ACCEPT THE LOWEST SCORING BIDS BASED ON THE CHANGED BIDDING RESULTS?

Yes.

Pursuant to 50 CFR 600.1018(p)(2), however, we can't notify the newly accepted bidders unless and until the readministered referendum is successful.

(7) HAVE WE TOLD THE PREVIOUSLY ACCEPTED BIDDERS HOW THE MISTAKE AND ITS CORRECTION AFFECTS THEM?

No.

The buyback regulations prevent us from doing this. Under the regulations, we can't identify accepted bidders unless and until a referendum is successful.

Until the mistake's discovery, we thought the previously administered referendum was successful. We *did*, consequently, notify the previously accepted bidders on June 14, 2004. We didn't learn until afterwards about the mistake which has since caused us to deem the previously administered referendum unsuccessful.

(8) WHAT HAVE WE SINCE THEN TOLD THE PREVIOUSLY ACCEPTED BIDDERS?

On July 3, 2004, we told the previously accepted bidders:

(a) That the mistake caused us to deem the previously administered referendum unsuccessful;

(b) That this caused the reduction contracts (about which we had on June 17, 2004, notified the previously accepted bidders) to have no further force or effect; and

(c) That the previous bid scores, ranks, and acceptances were based on inaccurate data

(9) WHAT DID WE TELL ALL BIDDERS?

On July 3, 2004, we told all bidders:

(a) That the previous bid scores, ranks, and acceptances were

based on inaccurate data;

(b) That, based on accurate data, we would re-score, re-rank, and reaccept the lowest ranked bids up to \$100 million; and

(c) That all bids submitted under the buyback's original invitation to bid remained irrevocable and subject to our new acceptance.

(10) DID THE TOTAL AMOUNT OF BIDS WE RECEIVED CHANGE?

No.

This remained the same as before, \$192,600,916.

(11) WAS THE TOTAL AMOUNT OF BIDS WE NEWLY ACCEPTED AFTER WE RE-SCORED AND RE-RANKED THE BIDS DIFFERENT THAN THE TOTAL AMOUNT OF BIDS WE PREVIOUS ACCEPTED?

Yes.

The old total amount under the previously accepted bids was \$99,878,316.

The new total amount under the newly accepted bids is \$98,378,316.

(12) DID THE NUMBER OF ACCEPTED BIDDERS CHANGE?

No.

The number of previously accepted bidders was 28.

The number of newly accepted bidders is also 28.

(13) DID THE NUMBER OF NON-INTERIM CRAB LICENSES TO BE RELINQUISHED UNDER THE BUYBACK CHANGE?

No.

In both cases, the number of non-interim crab licenses to be relinquished is 28.

(14) HOW ABOUT LICENSES OTHER THAN CRAB?

In addition to the 28 crab licenses, the newly accepted bids also include 20 groundfish licenses to be relinquished.

(15) DID THE NUMBER OF CRAB FISHING VESSELS TO LOSE THEIR

WORLDWIDE FISHING PRIVILEGES UNDER THE BUYBACK CHANGE?

No.

In both cases, the number of crab fishing vessels to lose their worldwide fishing privileges is 28.

(16) HOW MANY CRAB LICENSE HOLDERS VOTED IN THE PREVIOUSLY ADMINISTERED REFERENDUM, AND HOW DID THEY VOTE?

There were 317 qualified voters in the previous referendum.

283 (or 89.3%) of the qualified voters voted.

4 of the votes were unresponsive.

259 (or 92.8%) of the remaining 279 votes voted for the industry fee system.

(17) HOW DOES THE MISTAKE'S CORRECTION CHANGE THE CAPACITY REDUCTION INFORMATION IN OUR MAY 7, 2004, LETTER UPON WHICH WE PREVIOUSLY ADMINISTERED THE NOW UNSUCCESSFUL REFERENDUM, AND WHAT IS THE CORRECTED CAPACITY REDUCTION INFORMATION UPON WHICH WE ARE NOW READMINISTERING THE REFERENDUM?

The following tables establish this.

These tables should help you determine how you want to vote in the readministered referendum.

In each table:

(a) The column whose heading is "MAY 7" (black text) is the capacity reduction information in our May 7, 2004, letter upon which we previously administered the referendum; and

(b) The column whose heading is "RIGHT" (red text) is the correct capacity reduction information (as of May 7, 2004) upon which we are now readministering the referendum.

In a few cases, the data in the column headed "RIGHT" are the same as the data in the column headed "MAY 7", which means that the mistake and its correction didn't change these data. In these cases, the word "same" appears in the affected row of the column headed "RIGHT".

Where the term "accepted bidder" is used in these tables, the

term means each previously accepted bidder in relation to the data in the column headed "MAY 7" but means each newly accepted bidder in relation to the column headed "RIGHT".

- (18) WHAT PERCENTAGE OF ALL NON-INTERIM CRAB LICENSES ARE THE ONES TO BE RELINQUISHED UNDER THE BUYBACK?

TABLE NO. 1: NUMBER OF NON-INTERIM CRAB LICENSES				
TOTAL EXISTING	RELINQUISHED UNDER BUYBACK		RELINQUISHED AS % OF TOTAL	
	MAY 7	RIGHT	May 7	RIGHT
281	28	same	10%	same

- (19) WHAT AREA/SPECIES ENDORSEMENTS DO THE 28 RELINQUISHED CRAB LICENSES INVOLVE AND WHAT PERCENTAGES ARE THEY OF THE TOTAL ENDORSEMENTS EXISTING?

TABLE NO. 2: AREA/SPECIES ENDORSEMENTS FOR ALL NON-INTERIM CRAB LICENSES					
FISHERIES	TOTAL EXISTING	RELINQUISHED UNDER BUYBACK		RELINQUISHED AS % OF TOTAL	
		MAY 7	RIGHT	MAY 7	RIGHT
Bristol Bay Red	265	27	same	10.19%	same
BS Opilio and Bairdi	269	28	same	10.41%	same
Aleutian Island Red	26	1	2	3.85%	7.69%
Aleutian Island Brown	26	3	4	11.54%	15.38%
Pribilof Reds and Blue	116	15	same	12.93%	same
St. Matthew Blue	172	21	same	12.21%	same
TOTAL	874	95	97	10.87%	11.10%

- (20) HOW MUCH ACTUAL CRAB FISHING HISTORY WILL THE 28 ACCEPTED BIDDERS RELINQUISH IF THE READMINISTERED REFERENDUM APPROVES THE FEES?

The 28 accepted bidders will relinquish the **entire** BSAI crab fishing history of the vessels which gave rise to the bidders' 28 non-interim BSAI crab licenses.

The table below, however, states the actual crab fishing history, **during the 5 bid-scoring years**, which the 28 accepted bidders will relinquish as percentages of the total crab fishing history existing **during the same 5 bid-scoring years**.

TABLE NO. 3:
ACTUAL CRAB FISHING HISTORY, DURING THE 5 BID-SCORING YEARS, WHICH
ACCEPTED BIDDERS WILL RELINQUISH STATED AS PERCENTAGES OF THE TOTAL
CRAB FISHING HISTORY EXISTING DURING THE SAME YEARS¹

FISHERIES	5 BID- SCORING YEARS	% OF TOTAL VALUES		% OF TOTAL POUNDS	
		MAY 7	RIGHT	MAY 7	RIGHT
Bristol Bay Red	1993, 1996-1999	10.64%	9.28%	10.80%	9.37%
BS Opilio and Bairdi	1995-1999	11.77%	11.04%	11.96%	11.28%
Aleutian Island Red ²	1994-1996 1998-1999	0	positive	0	positive
Aleutian Island Brown	1995-1999	7.40%	15.10%	7.19%	14.92%
Pribilof Red and Blue	1994-1998	16.75%	14.42%	17.51%	15.00%
St. Matthew Blue	1994-1998	12.61%	12.06%	12.66%	12.23%

Although the percentages for Bristol Bay Red king crab have decreased in Table No. 3 above, **you should note that both the loan portion and fee rate for this fishery has also decreased** (see Table No. 5).

Although the percentages for Bering Sea Opilio and bairdi crab have also decreased in Table No. 3 above, **you should note that the loan portion for this fishery has also decreased** (see Table No. 5).

(21) ON WHAT ACTUAL CRAB CATCH HISTORY VALUES AND POUNDS DURING THE 5 BID-SCORING YEARS ARE THE ACCEPTED BIDDERS' PERCENTAGES IN TABLE NO. 3 ABOVE BASED?

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¹The incorrect crab catch data previously provided to us, and upon which the "MAY 7" data were based, overstated both the numerators and the denominators for the inaccurate "MAY 7" ratios in Table No 3.

²The corrected Table No. 3 ratios for this fishery now involve positive percentages in the "RIGHT" columns, but we cannot disclose the percentages because less than four vessels are involved and disclosure would violate State of Alaska confidentiality laws regarding the data from which these data were derived.

TABLE NO. 4: ACCEPTED BIDDERS' ACTUAL CRAB FISHING HISTORY, DURING THE 5 BID-SCORING YEARS, WHICH ACCEPTED BIDDERS WILL RELINQUISH					
FISHERIES	5 BID- SCORING YEARS	VALUES (IN MILLIONS OF \$)		POUNDS	
		MAY 7	RIGHT	MAY 7	RIGHT
Bristol Bay Red	1993 1996-1999	\$28.9	\$18.4	7,468,209	4,712,213
BS Opilio and Bairdi	1995-1999	\$97.9	\$67.2	99,924,734	69,247,684
Aleutian Island Red ³	1994-1996 1998-1999	0	positive	0	positive
Aleutian Island Brown	1995-1999	\$7.0	\$11.0	2,774,843	4,370,640
Pribilof Red and Blue	1994-1998	\$4.2	\$2.8	1,298,901	838,648
St. Matthew Blue	1994-1998	\$7.7	\$5.1	2,717,837	1,834,657

- (22) *PROSPECTIVELY*, WHAT PORTION OF A \$98.4 MILLION BUYBACK LOAN WOULD EACH OF THE SIX AREA/SPECIES FISHERIES SUBJECT TO THE FEES REPAY, AND WHAT PERCENTAGE OF THE *PROJECTED* POST-BUYBACK LANDING VALUE IN EACH FISHERY WOULD THE *PROSPECTIVE* LOAN REPAYMENT FEE BE?

TABLE NO. 5: PROSPECTIVE BUYBACK LOAN DATA FOR EACH AREA/SPECIES FISHERY				
FISHERIES	LOAN PORTIONS (IN MILLIONS OF \$)		LOAN REPAYMENT FEE RATES	
	MAY 7	RIGHT	MAY 7	RIGHT
Bristol Bay Red	\$19.8	\$17.3	2.3%	2.0%
BS Opilio and Bairdi	\$67.1	\$63.3	5.0%	same
Aleutian Island Red	0	\$0.1	0	5.0%
Aleutian Island Brown	\$4.8	\$10.3	2.1%	4.4%
Pribilof Reds and Blue	\$2.9	\$2.6	5.0%	same
St. Matthew Blue	\$5.3	\$4.8	5.0%	same
Total	\$99.9	\$98.4		

- (23) ON WHAT DO WE BASE THE FEE RATES IN TABLE NO. 5, AND WILL THEY CHANGE IN THE FUTURE?

The fee rates are always a percentage of ex-vessel value. For table No. 5 above, we based each prospective fee rate on the

³The corrected Table No. 4 ratios for this fishery now involve positive percentages in the "RIGHT" columns, but we cannot disclose the percentages because less than four vessels are involved and disclosure would violate State of Alaska confidentiality laws regarding the data from which these data were derived.

calendar year 2003 ex-vessel value of each area/species crab fishery.

Some area/species crab fisheries weren't open for directed fishing during calendar year 2003. For these fisheries, Table No. 5 above simply defaults to the maximum fee rate (5%). When these fisheries reopen for directed fishing and fees at the maximum rate have paid the loan portions for those fisheries current (based on a 30-year amortization), their fee rates will then decrease to whatever lower rate we estimate will be sufficient to keep repayment of these fisheries' loan portions current.

The fee rate for the Bering Sea *Opilio* and *bairdi* fishery is also at the maximum rate because only the *Opilio* portion of this area/species endorsement fishery was open for directed fishing during calendar year 2003. Again, when the *bairdi* portion of this fishery reopens for directed fishing and fees at the maximum rate have paid this fishery's loan portion current, the fishery's fee rate may then decrease to whatever lower rate we estimate will be sufficient to keep repayment of this fishery's loan portion current.

No one knows for sure what area/species endorsement fisheries may be open for directed fishing in future years or what their total allowable catches may then be, but no loan repayment fee rate will ever remain higher than the future rate necessary to amortize the loan portion remaining unpaid for each area/species endorsement fishery.

(24) If the readministered referendum succeeds, how does the crab fishing histories which the 28 accepted bidders will relinquish potentially increase the QS allocations for the fewer license holders who will remain in the post-buyback fishery?

At the public's request, the NPFMC staff published guidance for crab license holders' use in estimating their potential QS allocations under the proposed BSAI crab IFQ program. This guidance appears on the NPFMC's web site at:

<http://www.fakr.noaa.gov/npfmc/current_issues/crab/prefharvestdemon.pdf>

The NPFMC guidance is entitled "DENOMINATORS FOR CALCULATING ALLOCATIONS". We used this guidance to estimate:

(a) The potential percentages of crab QS allocations which the accepted bidders might receive if the readministered referendum doesn't succeed but won't receive if the readministered referendum does succeed; and

(b) Accordingly, the percentages by which crab QS allocations for the fewer post-buyback license holders would potentially increase if the readministered referendum does succeed.

The results of these calculations appear in table No 6 below.

These results are subject to the NPFMC staff caveats to its guidance upon which we've based these results.⁴

TABLE NO. 6: QS POUNDAGE ALLOCATIONS UNDER PROPOSED CRAB IFQ PROGRAM ⁵				
FISHERIES	ESTIMATED % THAT ACCEPTED BIDDERS <u>MAY NOT RECEIVE</u> <u>IF REFERENDUM</u> <u>SUCCEEDS</u>		ESTIMATED % OF INCREASES THAT FEWER POST-BUYBACK LICENSE HOLDERS <u>MAY RECEIVE</u> <u>IF REFERENDUM</u> <u>SUCCEEDS</u>	
	MAY 7	RIGHT	MAY 7	RIGHT
Aleutian Island Brown ⁶	9.94%	13.75%	11.04%	15.94%
Aleutian Island Red ⁷	0	positive	0	positive
Bristol Bay Red	16.47%	9.03%	19.72%	9.92%
Bering Sea Opilio	14.76%	10.54%	17.32%	11.78%
Bering Sea Bairdi	13.08%	8.54%	15.05%	9.33%
Pribilof Red and Blue	25.97%	12.23%	35.08%	13.93%
St. Matthew Blue	18.59%	10.29%	22.84%	11.47%

(25) IF THE READMINISTERED REFERENDUM SUCCEEDS, WHAT'S THE

⁴We used the NPFMC's crab catch data for the 28 newly accepted bidders to calculate the QS allocation estimates in Table No. 6. The numerators for these 28 vessels are, consequently, the same numerators which the NPFMC used in its QS allocation estimation guidance.

⁵The incorrect crab catch data previously provided to us, and upon which the "MAY 7" data were based, overstated the numerators but not the denominators for the inaccurate "MAY 7" ratios in Table No 6. "Referendum" in the context of Table No. 6 means the previously administered referendum for the column headed "MAY 7" and the readministered referendum for the column headed "RIGHT".

⁶This fishery category combines two fishery categories (i.e, Adak Browns and Dutch Browns) listed separately in "Table 1" to the NPFMC staff guidance.

⁷The corrected Table No. 6 ratios for this fishery now involve positive percentages in the "RIGHT" columns, but we cannot disclose the percentages because less than four vessels are involved and disclosure would violate State of Alaska confidentiality laws regarding the data from which these data were derived.

PRACTICAL EFFECT FOR YOU OF COMPLETING THE BUYBACK?

Completing the buyback will result in both greater ex-vessel crab revenues and greater crab QS allocations for fewer post-buyback license holders.

This is true because, if the readministered referendum succeeds, the 28 accepted bidders will relinquish their crab fishing histories, their crab licenses, and the worldwide fishing privileges of their crab vessels. These relinquished crab fishing histories will, under the proposed IFQ program, be available for reallocation to the fewer post-buyback license holders. This will increase the QS allocations available to fewer post-buyback license holders by the percentages estimated in Table No. 6.

Consequently, the buyback's benefit to fewer post-buyback license holders will be both:

(a) The greater ex-vessel revenues they realize from the greater crab QS allocations they receive; as well as

(b) The greater asset values of the greater QS allocations themselves.

(26) WHAT'S THE MAIN CONSIDERATION FOR READMINISTERED REFERENDUM VOTERS?

The main consideration is whether the greater QS allocations and the greater crab revenues which the fewer post-buyback license holders will experience justify the fees required to repay the buyback loan.

Note, however, that you'll only pay the fees as long as you continue in the BSAI crab fisheries. You'll receive the extra QS allocation now, but the buyback loan is a 30-year loan, and you'll only pay the loan fees for as long as you continue in the crab fisheries.

As previous buyback information letters have noted, the buyback loan isn't a conventional loan. No one is personally obligated to repay this loan in any way other than the fee rate which the first ex-vessel buyers of landed BSAI crab will apply to all post-buyback BSAI crab landings until the loan is repaid over the next 30 years.

Prospective buyback benefits to you which appear greater than the prospective buyback cost to you may indicate that you should vote for the buyback loan repayment fees and, thus, for enabling us to complete the buyback.

If, however, the cost appears greater than the benefit, this may indicate that you should vote against the buyback loan repayment fee and, thus, for preventing us from completing the buyback.

Voting for or against the fees is a judgment which only you can make. We urge you to carefully exercise your best judgment.

(27) IF THE READMINISTERED REFERENDUM IS SUCCESSFUL, WILL 27 OF THE ACCEPTED BIDDERS BE ABLE TO PARTICIPATE IN THE BRISTOL BAY RED KING CRAB SEASON WHICH BEGINS ON OCTOBER 15, 2004?

No, we believe a successful readministered referendum means that there will be 27 fewer license holders and fishing vessels⁸ participating in the Bristol Bay red king crab fishery's season beginning on October 15, 2004.

The readministered referendum's results will be known after 5:00 P.M. on July 30, 2004. If successful, we plan to publish a reduction payment tender notice in the Federal Register not later than August 9, 2004. 30 days later, on September 8, 2004, we'll tender reduction payments to the 28 accepted bidders. This is the point at which all buyback relinquishments are effective and accepted bidders must cease fishing with the licenses and vessels involved in the buyback.

All 28 accepted bidders should, consequently, permanently cease crab fishing with all 28 crab licenses and crab fishing vessels not later than September 8, 2004.

(28) WHEN WILL THE BSAI CRAB FISHERIES BEGIN PAYING THE BUYBACK LOAN REPAYMENT FEE?

Not until we propose and adopt a fee regulation and, subsequently, notify the first ex-vessel buyers of BSAI crab landed thereafter to start collecting the fees by withholding them from crab trip proceeds.

We don't expect that we'll be able to adopt the fee regulations until early 2005.

⁸The newly accepted bidders involve 28 non-interim crab licenses to be relinquished and revoked, but only 27 of them are endorsed for the Bristol Bay red king crab area/species fishery.

(29) WILL THE CRAB BUYBACK LOAN REPAYMENT FEES BE TAX DEDUCTIBLE?

The crab buyback loan repayment fees may be deductible for Federal income tax purposes because fees for the same purpose in a similar buyback we recently conducted were deductible.

Nevertheless, whether the crab buyback loan repayment fees will be deductible is solely an Internal Revenue Service determination, and you should consult with your tax adviser about this.

(30) WILL THE FEE RATES DECREASE IN THE FUTURE?

The maximum fee rate can never exceed 5% under any circumstances, but will never be higher than we project necessary to, over 30 years, repay any area/species endorsement fishery's loan portion.

The 30-year buyback loan has a fixed principal amount at a fixed interest rate, and ex-vessel crab prices will presumably inflate over the next 30 years.

All other things being equal, if ex-vessel prices inflate during the next 30 years, the buyback loan-repayment fee rates will become a smaller percentage of ex-vessel crab values than the percentages which we initially project in this letter.

This concludes the capacity reduction information for the readministered referendum.

Please do not hesitate to contact us, at the numbers and addresses in the last table below, if you need further buyback information.

Remember, however, that the BSAI crab buyback regulations preclude us from identifying the newly accepted bidders, based on the re-scored and re-ranked bids, unless and until the readministered referendum is successful. We can't even notify the accepted bidders themselves until then.

PERSON	NUMBERS/ADDRESS	
	TELEPHONE (301) 713-2390	E-MAIL ADDRESS
Mike Sturtevant	Extension 212	michael.a.sturtevant@noaa.gov
Shawn Barry	Extension 186	shawn.barry@noaa.gov
Mike Grable	Extension 185	michael.grable@noaa.gov

Again, we urge each qualified voter to exercise his or her voting privilege in our readministration of this referendum and to return a completed ballot to us soon enough for us to be able to count the ballot in the readministered referendum.

Please remember to mark your ballot either for or against the industry fee system, sign the original ballot, and put your original ballot in the yellow envelope we've provided before returning it to us by the means of your choice.

Please remember that the deadline for us to receive your completed ballot is 5:00 P.M., Eastern Daylight Time, on July 30, 2004.

A vote for the industry fee system is a vote enabling us to complete the buyback.

A vote against the industry fee system is a vote preventing us from completing the buyback.

We profoundly regret the need to readminister this referendum.

We hope we can all go productively forward from here.

Sincerely,

Michael L. Grable, Chief
Financial Services Division

ENCLOSURE (one ballot for one crab license)